22 December 2022 Corporates

Globe Trade Centre S.A.
Poland, Real Estate

BBB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA interest cover	3.3x	3.4x	4.1x	3.5x
Scope-adjusted debt/EBITDA	9.6x	12.5x	9.5x	9.3x
Scope-adjusted loan-to-value (LTV) ratio	47%	52%	47%	47%

Rating rationale

The rating is driven by Globe Trade Centre (GTC)'s market positioning in Central Eastern Europe (CEE) and Southeastern Europe (SEE). The company benefits from a well-located property portfolio, which helps attract blue-chip tenants, keeping occupancy adequate and supporting growth of operational cash flow and ongoing strong profitability. Consequently, we expect GTC to show stable credit metrics despite increasing pressure on portfolio value and interest coverage due to rising interest rates and weaker tenant demand amid the economic slowdown and despite increasing obsolescence risk for parts of the portfolio. Further support for stable credit metrics stems from the issuer's updated strategy to maintain or reduce its leverage given the current unfavourable cost of funding and to fund future expansion through own liquidity and equity issuances.

The rating is constrained by ongoing re-letting risk given the company's short weighted average unexpired lease term (WAULT), amplified by generally weaker tenant demand for parts of GTC's portfolio. Furthermore, the company's focus on second-tier investment markets and still significant share of retail properties might lead to limited liquidity of the portfolio and higher value haircuts. The latter has led to limited headroom under bank loan covenants, which poses a continuous threat in the current market environment.

Outlook and rating-change drivers

The Outlook for GTC is Stable and reflects our view that the company's portfolio will show positive like-for-like growth in rents. This will partially compensate for pressure on capitalisation rates while supporting at least break-even free operating cash flow (FOCF), which will help cover dividend payments equating to approximately 50% of reported FFO annually. Consequently, we assume broadly stable credit metrics going forward, with a Scope-adjusted LTV ratio between 45%-50% and Scope-adjusted EBITDA interest cover of above 3x.

A positive action is seen as remote and would require the company to reduce leverage, as measured by its Scope-adjusted LTV ratio, to around 40% on a sustained basis, supported by commensurate financial policy. This could happen if GTC managed to increase rental cash flow, thus enlarging its financial headroom to repay debt and support stable or increasing portfolio value.

A negative rating action is possible if the company's Scope-adjusted LTV ratio increased to around 55% on a sustained basis, potentially triggered by a drop in the portfolio value of GTC's assets beyond our expectations.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
22 Dec 2022	Affirmation	BBB-/Stable
24 Jan 2022	Affirmation	BBB-/Stable
22 Feb 2021	No action	BBB-/Stable

Ratings & Outlook

Issuer	BBB-/Stable
Senior unsecured debt	BBB-

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Related Methodologies and Related Research

Corporate Rating Methodology; July 2022

European Real Estate Methodology; January 2022

ESG considerations for the credit ratings of real estate corporates; April 2021

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Medium-sized real estate company; size supports visibility on investment and letting markets across CEE and SEE • Portfolio well distributed across CEE and SEE, although this also entails exposure to more volatile economies • Strong profitability: Scope-adjusted EBITDA margin of around 80%, driven by economies of scale • Relatively strong Scope-adjusted EBITDA interest cover anticipated to remain above 3x • Stable leverage, with Scope-adjusted LTV ratio of around 50% supporting access to external financing	• Focus on second-tier investment markets • Relatively low WAULT leads to ongoing re-letting risk, especially with tenant demand likely to change

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted LTV ratio of around 40% on a sustained basis, supported by commensurate financial policy	• Scope-adjusted LTV ratio of around 55% on a sustained basis

Corporate profile

Globe Trade Centre S.A. (GTC) is a real estate investor and developer focusing on Poland and capital cities in Central and Eastern Europe. It actively manages a real estate portfolio of 44 commercial buildings providing 758,000 sq m of office and retail space. In addition, GTC has a development pipeline of around 191,000 sq m of residential and office properties in capital cities of Central and Eastern Europe, of which 51,000 sq m is under construction. The company is listed on the Warsaw Stock Exchange, included in the mWIG40 index and inward-listed on the Johannesburg Stock Exchange.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**Q3 2022[1]**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA interest cover	3.3x	3.4x	3.2x	4.1x	3.5x	3.9x
Scope-adjusted debt/EBITDA	9.6x	12.5x	10.7x	9.5x	9.4x	8.4x
Scope-adjusted LTV ratio	47%	52%	46%	47%	47%	47%
Scope-adjusted EBITDA in EUR m						
EBITDA	105	112	110	115	118	128
Other items[2]	0	0	0	0	0	0
Scope-adjusted EBITDA	**105**	**112**	**110**	**115**	**118**	**128**
Funds from operations in EUR m						
Scope-adjusted EBITDA	105	112	110	115	118	128
less: (net) cash interest paid	-32	-33	-35	-28	-34	-33
less: cash tax paid per cash flow statement	-6	-9	-12	-12	-12	-14
Change in provisions	0	1	-1	-1	-1	-1
Funds from operations	**67**	**72**	**62**	**74**	**71**	**80**
Net cash interest paid in EUR m						
Net cash interest per cash flow statement	-32	-33	-35	-28	-34	-33
Change in other items	0	0	0	0	0	0
Net cash interest paid	**-32**	**-33**	**-35**	**-28**	**-34**	**-33**
Scope-adjusted total assets in EUR m						
Total assets	2,481	2,844	2,738	2,465	2,442	2,423
less: guarantee deposits	-11	-11	-12	-12	-12	-12
less: cash and equivalents	-310	-113	-152	-102	-99	-98
less: derivatives (assets)	0	-1	-24	-24	-24	-24
Scope-adjusted total assets	**2,159**	**2,719**	**2,550**	**2,327**	**2,308**	**2,289**
Scope-adjusted debt in EUR m						
Reported gross financial debt	1,304	1,493	1,294	1,162	1,166	1,137
add: derivatives	19	41	36	36	36	36
less: non-interest-bearing liabilities held for sale	0	-17	-3	0	0	0
less: available cash and cash equivalents	-310	-113	-152	-102	-97	-94
add: pension adjustments	0	0	0	0	0	0
Scope-adjusted debt (SaD)	**1,013**	**1,404**	**1,174**	**1,096**	**1,105**	**1,078**

[1] 12 months ending September 2022 for cash flow-related metrics
[2] Includes non-recurring items and disposal gains on fixed assets

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Environmental, social and governance (ESG) profile[3]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend
Green leaf (ESG factor: credit-positive)
Red leaf (ESG factor: credit-negative)
Grey leaf (ESG factor: credit-neutral)

Credit-neutral ESG profile

We believe GTC has pursued a transparent governance policy over the years. We base this belief on the quality and quantity of publicly available information as well as on future strategies.

88% of GTC's assets are LEED- or BREEAM-certified (as at end September 2022). The company committed itself to 10 UN Sustainable Development Goals and introduced a green bond framework in 2020. Funds issued under this framework are used to finance and refinance the acquisition, construction or refurbishment of buildings that meet recognised standards, such as BREEAM (very good and above) and LEED (gold and above). GTC has made a commitment that all its future investments will meet criteria for sustainable construction certificates and ensure tenant safety. We see all these initiatives as positive but not as impacting the company's credit profile.

[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB-

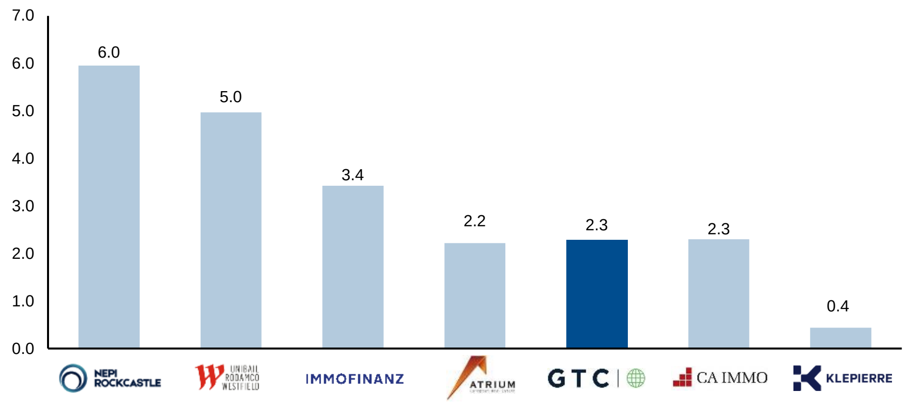
Industry risk profile: BB

GTC is a real estate investor and developer, so it is exposed to two sub-segments of the real estate sector: commercial buy-and-hold (industry risk of BB) and commercial development (industry risk B). We only consider its commercial exposure based on the relatively low share of development under construction (4% as at end-September 2022), which in turn is based on the company's gross asset value, including developments to be delivered and landbanks.

Medium size supports visibility on investment and letting markets across CEE and SEE

GTC is a medium-sized real estate company focused on CEE and SEE with Scope-adjusted total assets of EUR 2.6bn as at end-September 2022 (EUR 2.3bn in gross asset value), down from EUR 2.7bn in December 2021 mainly due to the sale of office buildings in Serbia. The company is among the larger peers in the region and benefits from some visibility on capital markets (listed on the Warsaw Stock Exchange and inward-listed on the Johannesburg Stock Exchange). Moderate visibility will support GTC's operations going forward as it provides access to external financing and thus the firepower to buy or develop revenue-generating assets. These in turn will support the company's strategy of expanding its portfolio in Poland and in the capital cities of selected CEE and SEE countries.

Figure 1: GTC and competitors by gross asset value (EUR bn) in CEE as at Q2 2022[4]



Sources: Public information, Scope

GTC manages completed commercial properties with a combined gross leasable area of approximately 758,000 sq m as at end-September 2022, including 38 office buildings and six shopping malls. With its focus on capital cities in CEE and SEE, GTC benefits from decent visibility on these markets, especially as its portfolio predominately comprises relatively new properties (weighted economic age of eight years).

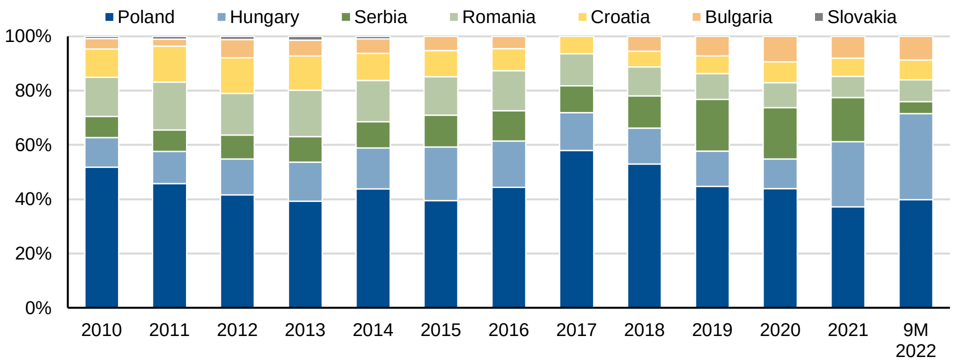
GTC Hungary has a gross asset value of EUR 0.6bn as at end-September 2022 (EUR 0.5bn in September 2021) and operates a portfolio of 12 office properties and one retail property with a gross leasable area of 230,000 sq m (192,000 sq m in September 2021). We believe the market visibility of GTC Hungary will continue to improve going forward. We base this belief on its focus on Budapest, namely the Váci Corridor – where it is one of the main players – and following execution on its development pipeline by Q1 2024 (Centre Point 1 and 2 with 40,800 sq m, Rose Hill Business Campus with 14,700 sq m). The first property (The Pillar) was delivered in Q4 2021.

[4] Globe Trade Centre S.A. and Atrium Real Estate as at 30 Sep 2022

Portfolio distribution across CEE and SEE entails exposure to more volatile economies

GTC's portfolio is well distributed across CEE (72% of gross asset value – income-producing assets – as at end-September 2022) and SEE (28%). The focus is on Poland (40%), the company's domestic market. Thus performance will hinge on Poland's macroeconomic environment. Macroeconomic factors will drive consumer spending on, for instance, leisure and non-essential retail, affecting GTC's two shopping malls as well as tenant demand for its 16 office properties. The rest of the portfolio is distributed across five other countries: Hungary (32%), Bulgaria (9%), Romania (8%), Croatia (7%) and Serbia (4%). Consequently, GTC benefits from different demand patterns in the countries to which it is exposed. However, the volatility of economic development in GTC's markets is higher than in EU-27 markets (except Poland). On the one hand, these markets benefit from faster growing economies, outpacing more mature markets in Europe. On the other hand, they experience larger downswings such as during the global financial crisis. Nonetheless, GTC's relatively good foothold in the capital cities of SEE and CEE countries enables it to attract high-profile blue-chip tenants.

Figure 2: Geographical distribution by gross asset value (Q3 2022)



Sources: GTC, Scope

New strategy foresees investments in sectors with higher sustainable growth

In August 2022, GTC signed an agreement to make a joint venture investment in the Kildare Innovation Campus, an innovation hub outside Dublin, Ireland. The site will be converted into a Life Science and Technology campus with over 145,000 sq m of lettable space. GTC acquired a 25% minority stake through notes issued by a Luxembourg securitisation vehicle.

The transaction is expected to reduce geographical dependency on CEE and SEE. It also aims to diversify customer segments and focus on high-demand tenants. According to GTC, Ireland is one of Europe's largest technology and life science hubs with technology, science and innovation companies having major presence, thus representing an attractive hub for companies seeking real estate spaces.

Investment-grade tenants on average, but slightly reduced diversification

With its top three tenants accounting to 11% of total rent as at end-September 2022, diversification has declined slightly (up 2% compared to September 2021). The top 10 tenants account for 25% of total rent as at end-September 2022 (22% at end-September 2021). We still consider diversification adequate and do not see any risk of a significant increase in concentration. Furthermore, tenants include big names like Ericsson, Exxon Mobil and IBM, and they have good credit quality (80% of the top 10 tenants and around one quarter of overall tenants are investment-grade, blue-chip or government/supra-national entities). This limits the impact of single tenant defaults on the company's cash flows, as illustrated by bad debt impairments of below 30 bp of gross rental income for the last couple of years.

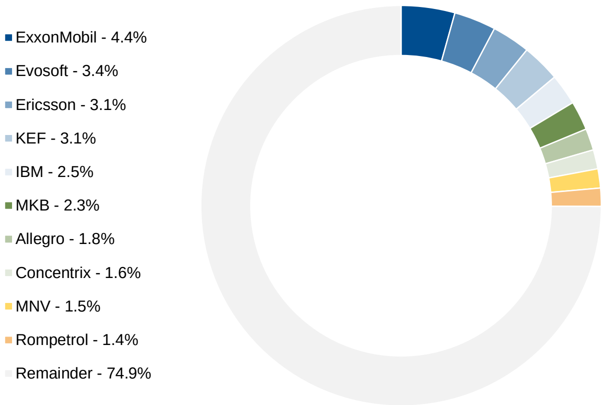
Change in tenant demand

GTC has significant exposure to retail tenants (35% of annualised in-place rent as at end-September 2022, down 6 pp YoY). This leaves cash flows vulnerable to the ongoing transformation of the European retail industry (see also Adapt or Disappear: E-commerce

Transforms European Retail). However, retail performance appears to have recovered following the pandemic, as the first nine months' turnover in 2022 exceeded pre-Covid levels (October 2022 revenues from retail tenants were 111% of revenues in 2019) and the occupancy rate is 96%, up slightly (1 pp) compared to December 2021. Footfall also shows a positive trend (91% in October 2022 vs 79% in October 2021), although it remains below 2019 levels. Moreover, GTC benefits from exposure to CEE and SEE, where online shopping has grown at a slower pace compared to Western Europe.

By contrast, annualised rental income from the office segment declined to EUR 88m as at end-September 2022 (from EUR 108m in September 2021) due to the disposal of the Serbian portfolio and a decline in occupancy rates (down 4 pp YoY). In general, we also expect employers' behaviour to change given that the biggest-ever remote-working experiment – prompted by the Covid-19 pandemic – proved largely successful. Companies may consequently adjust their real estate needs downwards in the medium term. We expect a gentle dip in demand for office space rather than a sharp drop as companies will still need prestigious, high-quality buildings to promote their image and retain workers.

Figure 3: Top tenants by net rental income as at September 2022



Sources: GTC, Scope

The investment in the Kildare Innovation Campus is expected to reduce pressure on GTC's two core segments by providing further diversification in terms of demand. Nevertheless, we do not expect the investment to generate positive cash flow in the short term.

Tenant concentration is much more pronounced for GTC Hungary, where the top three tenants account for 37% (up 2 pp YoY) of rental revenue as of November 2022. However, GTC Hungary's tenant portfolio is almost entirely investment-grade quality, sharply decreasing the likelihood of single tenant defaults. Furthermore, the company aims to reduce tenant concentration as evidenced by the strong weight of Hungarian developments within its pipeline, including projects in planning status (36% of gross leasable area).

Development pipeline remains marginal in value

Following a 50% cut in 2021, GTC has re-accelerated its development activity in 2022 (under construction and ready to be launched in the next 24 months), although the value of these developments remains relatively low compared to that of its income-producing assets. The relatively low exposure to development activity (under construction) is considered positive as it leaves the company less exposed to associated risks, including cost overruns, delays in delivery and sufficient up-letting to enable positive returns. We note current pre-letting rates of 64% based on estimated rental values. There are currently three office projects under development and four projects (including offices and one residential estate) ready to be launched in the next 24 months. Total gross development volume amounts to EUR 507m as at end September 2022 (EUR 375m in June 2021).

The under-construction pipeline includes GTC X, a 17,500 sq m office building in Belgrade completed in November 2022 (95% leased at opening); Centre Point 1 and 2, a 40,800 sq m office complex in Budapest under refurbishment and scheduled to be delivered in Q4 2023; and three remaining projects in Sofia, Zagreb and Budapest.

Of the projects to be launched in the next 24 months, the largest is Napred Belgrade (72,500 sq m of office space) with a total development cost of EUR 162m, which is expected to be delivered in Q4 2026. Furthermore, GTC added a residential project to the pipeline, a 22,000 sq m building in Bucharest (total development cost EUR 39.2m) to be delivered in Q4 2024. This new residential project introduces a degree of diversification, which we see as positive. This is because residential development meets increasing demand in SEE for higher-quality living while also being less exposed to economic downturn and substitution risk (homebuilders address a basic human need).

Further execution on the company's development pipeline is subject to high pre-letting rates that allow for built-to-suit projects, thus limiting associated development risk.

Focus on second-tier investment markets

GTC's properties are predominately located in second- and third-tier investment markets. The exception is Warsaw (13% of GLA as at end-September 2022), which is considered first tier. Although capital city markets (Zagreb, Sofia, Budapest, Bucharest, Belgrade) have gained momentum over the last few years, investment volume has not reached EUR 1bn for most of them (excluding Budapest, where annual investment hit EUR 1.7bn in 2019). Thus, the liquidity of GTC's portfolio is relatively limited. In the current scenario of rising interest rates, investors are likely to focus on first-tier markets and safe havens like London, Paris or the seven major German cities. This could eventually lead to substantial downward pressure on property values (excluding Warsaw), an increase in leverage, reduced availability of external financing and limited recovery expectations for debt investors.

GTC benefits from adequate tenant demand, with an occupancy rate of 86% in September 2022 (90% in September 2021) for the office segment and 96% (95% in September 2021) for the retail segment. GTC's office segment has suffered from declining occupancy (down 4 pp YoY), driven by limited demand in some secondary markets, the ongoing refurbishment of Centre Point 1 and 2 and continued below-average occupancy rates for ABC II (delivered in 2020). We do not expect occupancy rates to improve in the short term given the planned disposal of higher-quality properties (Matrix A and B, Forrest Office Debrecen) that show above-average occupancy rates between 95%-100% and softer demand for office space in general.

Granted, the retail segment has proven to be resilient, with a strong recovery in uptake, sales and footfall after restrictions linked to the Covid-19 pandemic were lifted and despite the current macroeconomic environment. However, pressure could increase on the office segment given the growing trend of hybrid work, which could lead companies to reduce their office space. And yet, as previously mentioned, we expect a slight decrease in demand than rather a sharp drop. In this context, we view positively GTC's decision to direct its strategy towards the technology sector as demand is expected to grow for research centres, data centres, logistics infrastructure and digital hubs.

Relatively low WAULT leads to ongoing re-letting risk

Nonetheless, risk regarding future occupancy levels is amplified by the relatively short WAULT of 3.6 years as at end-September 2022, which exposes GTC to ongoing re-letting risk, especially considering muted demand. Going forward, we expect GTC will need to increase spending on aged assets in the portfolio to be able to successfully re-let vacant space. However, we view the majority of GTC's portfolio as relatively well protected thanks to several supporting features, including properties that: i) have been recently built (economic age of around eight years) and are mostly located in the central business district (offices); or ii) benefit from relatively little competition (retail excluding Warsaw) and are mostly located in residential areas.

Strong profitability with Scope-adjusted EBITDA margin of above 80%

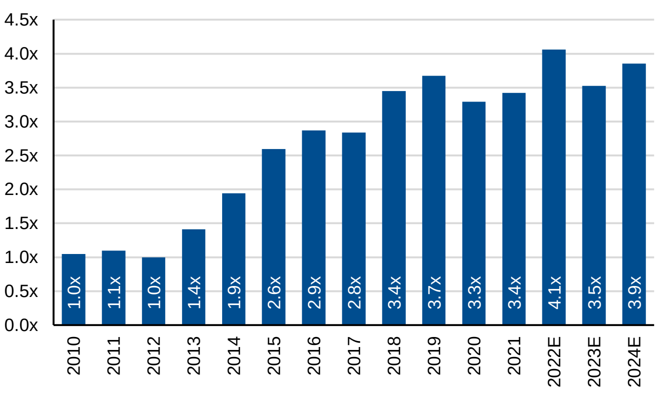
Profitability has improved greatly with the discontinuation of residential development activity (finalised in 2018), leading to a Scope-adjusted EBITDA margin above 75% since 2016 (last 12 months to end-September 2022: 84%, down 1 pp YoY). The recent increase to close to 90% was driven by cost optimisation measures in response to Covid-19 lockdowns, including a reduction in non-critical operating expenses and a decrease in provisions for share-based payments. The sharp reduction in operating expenditures will be less pronounced in 2022, with the Scope-adjusted EBITDA margin normalising closer to 80%, a level we view as sustainable. Comparatively high profitability is driven by a relatively lean organisational setup paired with relatively strong year-on-year top line growth of around 5% in 2023 (like for like) and 2% in 2024.

Financial risk profile: BBB-

Strong top line growth and limited committed capex both support break-even FOCF

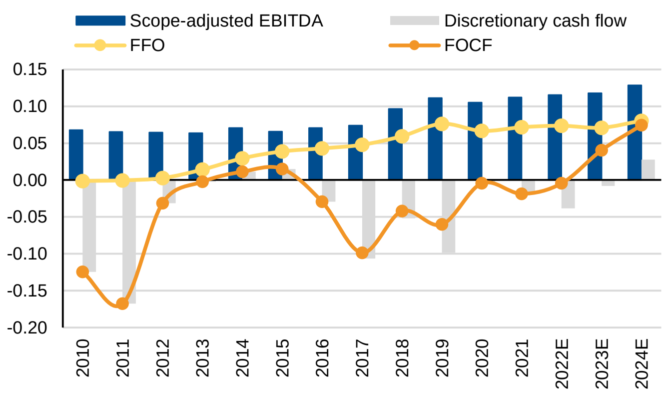
Cash flow from operations has followed a positive trend since 2016. Improvements have been driven by: i) a halt to residential development activity in 2018; and ii) portfolio growth achieved via execution on the company's commercial development pipeline (develop to hold) and property acquisitions. The former has led to negative FOCF since 2016. This was financed externally, lifting SaD to EUR 1,174m as at end-September 2022. Acquisitions have been financed mainly by capital recycling or equity issuances, and we believe this will remain the case going forward. Committed capital expenditure of EUR 127m between 2022 and 2024 is expected to be covered by operating cash flow, creating room to deleverage to compensate for pressure on achievable rent levels, rising interest rates and yield-widening. However, we note that the company is seeking external financing to relaes capital for delivered developments up to a level of 50% loan/value.

Figure 4: Scope-adjusted EBITDA interest cover (x)



Sources: GTC, Scope estimates

Figure 5: Cash flows (EUR bn)



Sources: GTC, Scope estimates

Scope-adjusted EBITDA interest cover anticipated to remain above 3x

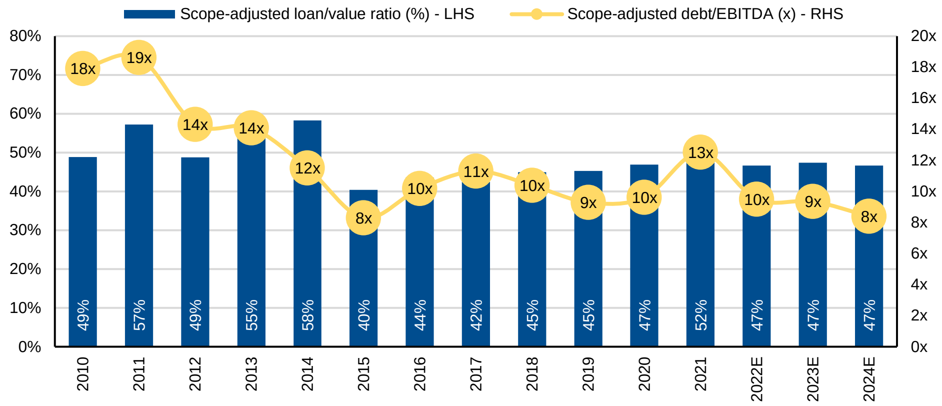
Scope-adjusted EBITDA interest cover has been above 3x since 2018 (3.2x in the last 12 months ending September 2022). This is due to a low weighted average cost of debt (2.2% as at end September 2022) that has been constantly falling since 2020. We do not expect GTC will be significantly impacted by a changing interest rate environment in the short to medium term as 95% of its debt is fixed or hedged. However, new debt will bear notably higher interest rates, and the unhedged share of debt, while negligible, allows the pass-through of rate increases that have taken place since Q1 2022. Thus, we expect the weighted average cost of debt to increase to close to 3% by YE 2023. Still, interest cover should remain comfortably above 3x, supported by the company's inflation-linked revenue base. Nevertheless, we only believe a portion will be passed on to tenants given the challenging economic environment and limited demand for some of GTC's office portfolio.

Stable leverage supports access to external financing

GTC's leverage, measured by its Scope-adjusted LTV ratio, has ranged between 45% and 50% since 2016 (following a successful debt restructuring in 2015), with a peak of 52% in 2021. The ratio returned to 46% at end-September 2022. We expect the LTV ratio to remain in the current range based on a steadily growing revenue base. This will partially compensate for widening yields (anticipated to widen between 150-175 bp by YE 2024) and support break-even FOCF that allows for deleveraging. The company's strategy is to maintain or reduce its leverage given the current unfavourable cost of funding and to fund future expansion through own liquidity and equity issuances[5].

An increase in leverage could be caused by delays in project execution and consequent extensions of funding periods. However, we do not anticipate the Scope-adjusted LTV ratio will increase above 55% as development activity is expected to remain marginal.

Figure 6: Leverage



Sources: GTC, Scope estimates

Cash flows from commercial real estate are partially linked to changes in general demand. Hence, our financial risk assessment of companies active in this segment also includes leverage, as measured by the Scope-adjusted debt/EBITDA ratio. This provides good visibility on leverage independent of changes in market value driven by shifts in capitalisation rates. In light of this, we view positively GTC's ability to keep its Scope-adjusted debt/EBITDA ratio stable at around 10x in the past. This level indicates that the fair value growth of its properties was well balanced between yield compression and rent increases, protecting leverage levels in a changing yield environment going forward.

Adequate liquidity

Liquidity has improved since 2021 thanks to GTC's ability to secure a revolving credit facility. Significant debt issuance activity helped as well by bolstering the company's available cash position and its ability to repay debt subject to covenant breaches or limited headroom under existing financial covenants. Liquidity is expected to remain adequate going forward based on debt maturities in the 24 months to end-September 2024 (EUR 101m) that are expected to be easily covered by cash sources. Such sources include available cash of EUR 127m, an undrawn revolving credit facility of EUR 94m (both as at end-September 2022) and positive FOCF of EUR 107m forecasted for the same period. Still, GTC shows a relatively low weighted average debt maturity of four to

[5] An additional capital increase announced in September 2022

five years (end-September 2022: 4.5 years) including major refinancings in 2026 (EUR 770m).

Balance in EUR m	*24M to Q3'24*	2023E	2024E
Unrestricted cash (t-1)	*127*	102	97
Open committed credit lines (t-1)	*94*	94	94
FOCF	*107*	38	72
Short-term debt (t-1)	*101*	46	29
Coverage	***> 200%***	**> 200%**	**> 200%**

for information purposes only

We acknowledge the company's aim of switching financing mainly to senior unsecured debt (target of 85%-90% share) if market conditions are favourable for issuers. Achieving this aim would provide more headroom under financial covenants – especially by repaying bank debt – plus greater flexibility regarding portfolio adjustments and increased visibility on capital markets. However, in the current environment we consider secured financing to be a better option for refinancing maturing debt, leaving the share of unsecured financing at around 50%.

Supplementary rating drivers: +/- 0 notches

Financial policy: neutral

The company follows no publicly communicated financial policy except a strategic LTV target of below 50%. The chart below shows the company's compliance with its own targets and unsecured financing covenants.

	Policy	Q3 2022
LTV ratio	50%[6]	44%[7]
Secured LTV ratio[8]	below 40%	21%
Unencumbered asset ratio[7]	min. 125%	214%
Interest coverage ratio[7]	min. 1.5x	3.6x

Issuer rating for GTC Hungary Zrt.

The issuer rating for GTC Real Estate Development Hungary Zrt. is driven by the issuer rating of its parent, Globe Trade Centre S.A., based on our assessment of a strong link between GTC S.A. and GTC Hungary Pltd. Our view is supported by the following:

- Explicit guarantee: The senior unsecured bond as well as all future debt (excluding non-recourse secured bank debt) of GTC Real Estate Development Hungary Zrt. (GTC Hungary Pltd.) is irrevocably and unconditionally guaranteed by GTC S.A.
- Majority owner: As of today, GTC holds 100% of GTC Hungary Pltd.
- Name equality: GTC Hungary is clearly identifiable as part of GTC S.A.
- Strategic importance: GTC Hungary forms part of GTC Group and represents group operations in Hungary. There is no intention to change the group's structure in the medium term.
- Centralised treasury: GTC S.A. is expected to continue to finance GTC Hungary Pltd.'s operations (excluding non-recourse bank loans for property SPVs) via intercompany loans under GTC's centralised treasury, which handles the group's financing.

[6] Covenant is 60%
[7] According to company's calculations
[8] Covenants of financing instruments

- Strong integration in GTC S.A.: GTC Hungary Pltd. is strongly integrated in GTC's operations, with all decisions approved and made by the management board of GTC S.A. (note: the management board of GTC Hungary Pltd. is comprised of two members of GTC S.A.'s board).

Long-term debt ratings

Senior unsecured debt rating: BBB-

GTC has EUR 689m in capital market debt outstanding as at end-September 2022. All issuances are irrevocably and unconditionally guaranteed by Globe Trade Centre S.A.

The company's unencumbered asset ratio stands at around 200% as at end-September 2022. This provides sufficient collateral to bondholders, justifying the senior unsecured debt rating of BBB-.

Appendix: Peer comparison

	Globe Trade Centre S.A.	Fastpartner AB	Inmobiliaria Colonial SOCIMI S.A.	Norwegian Property ASA	Corem Property Group AB
	BBB-/Stable	BBB-/Stable	--/--*	BBB-/Stable	BBB-/Stable
Last reporting date	30 Sep 2022	30 Jun 2022	30 Jun 2022	31 Mar 2022	30 Jun 2022
Business risk profile					
Scope-adjusted total assets (EUR m)	2,574	3,702	13,609	2,806	8,907
Portfolio yield (NIY)	6.5%	4.8%	2.8%	3.7%	5.1%
Gross lettable area (‘000s sq m)	758	1,573	1,718	505	3,479
Number of residential units	na	Na	na	na	na
Countries active in	6	1	2	1	3
Top three tenants (%)	11%	9%	10%	32%	9%
Top 10 tenants (%)	25%	19%	26%	48%	15%
Office (share net rental income)	65%	46%	94%	67%	47%
Retail (share NRI)	35%	12%	5%	8%	11%
Residential (share NRI)	na	0%	0%	0%	na
Hotel (share NRI)	na	4%		0%	na
Logistics (share NRI)	na	24%	0%	6%	24%
Others (share NRI)	na	14%	1%	19%	18%
Property location	Mainly 'B'	‘A’ and ‘B’	Mainly ‘A’	Mainly 'A'	‘A’ and 'B'
EPRA occupancy rate (%)	89%	92%	96%	93%	89%
WAULT (years)	3.6	4.6	4.2	5.1	3.7
Tenant sales growth (%)	na	na	na	na	na
Like-for-like growth rents (%)	na	na	5.8%	na	na
Occupancy cost ratio (%)	na	na	na	na	na
Scope-adjusted EBITDA margin	84%	68%	77%	81%	61%
EPRA cost ratio (incl. vacancy)	na	na	20.7%	na	na
EPRA cost ratio (excl. vacancy)	na	na	18.8%	na	na
Financial risk profile					
Scope-adjusted EBITDA interest cover	3.2x	5.1x	2.2x	2.3x	2.7x
Scope-adjusted LTV ratio	46%	44%	37%	44%	53%
Scope-adjusted debt/EBITDA	10.7x	13.5x	18.6x	15.8x	28.3x
Weighted average cost of debt	2.2%	1.5%	1.3%	2.8%	2.7%
Unencumbered asset ratio	203%	230%	235%	na	na
Weighted average maturity	4.5	3.7	4.6	4.2	na

* Subscription ratings available on ScopeOne

Sources: Public information, Scope

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